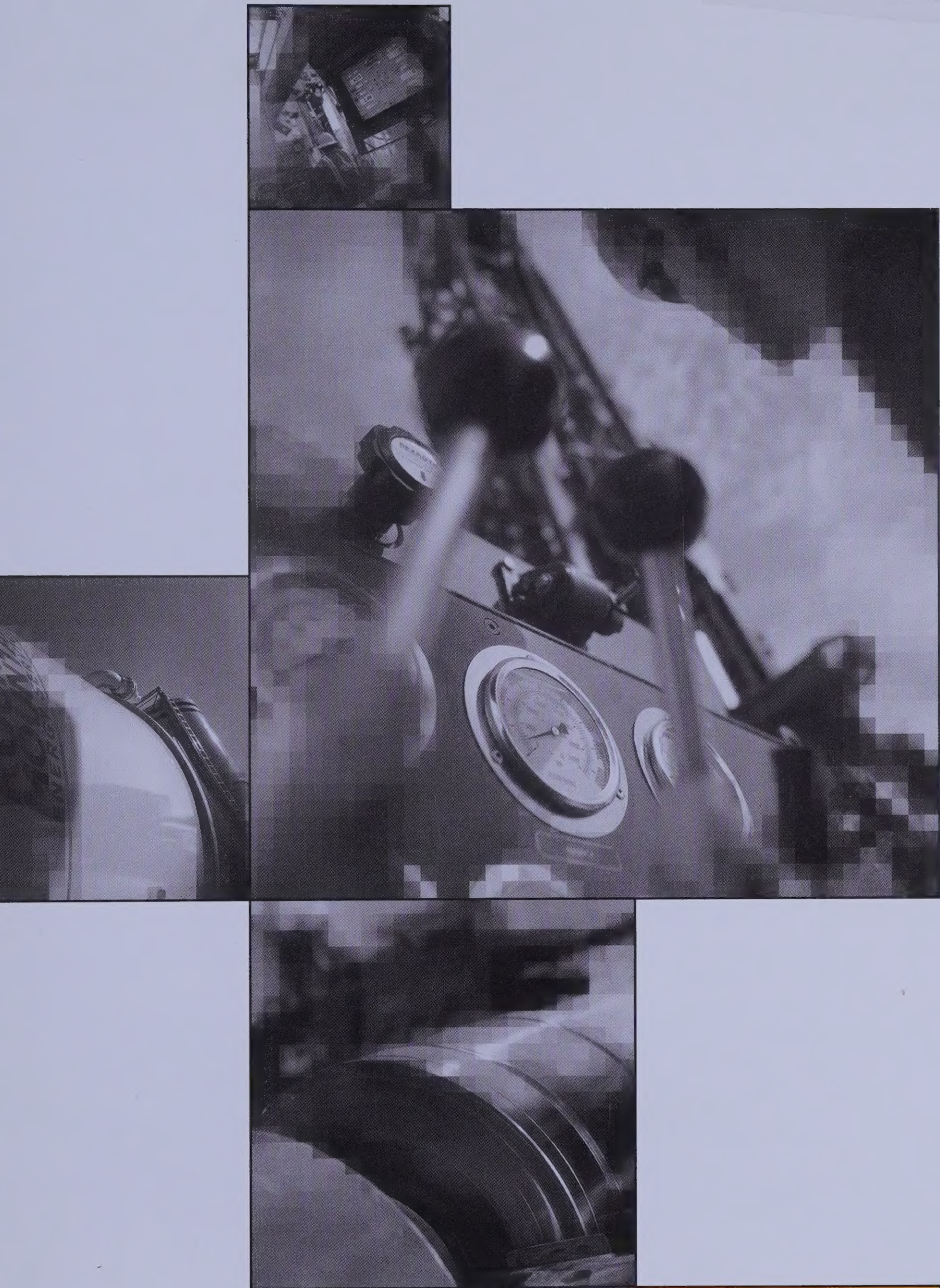


PEAK ENERGY SERVICES LTD. 2000 ANNUAL REPORT

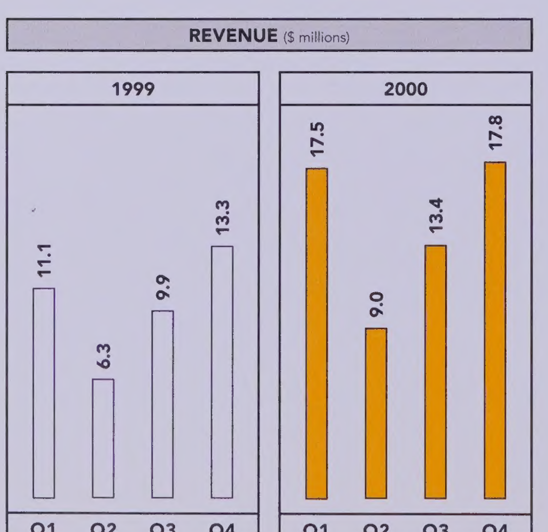
FOCUSING ON VALUE

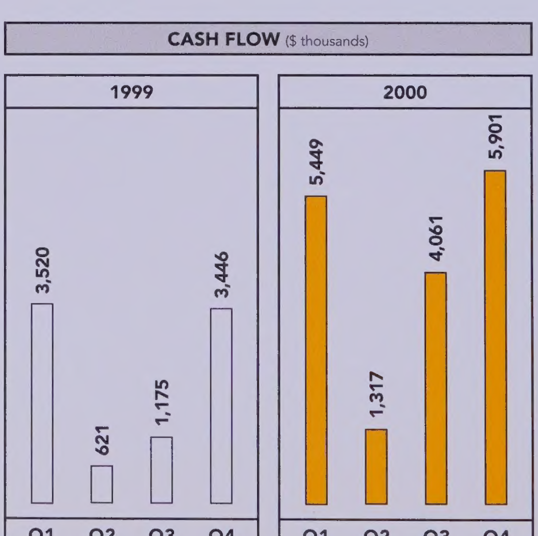
2000 FINANCIAL HIGHLIGHTS

As at December 31 ($ thousands)	2000	1999 (Restated note 2)
Revenue	$ 57,668	$ 40,573
Net income from continuing operations	$ 9,976	$ 1,004
per share (fully diluted)	$ 0.29	$ 0.03
EBITDA	$ 20,575	$ 10,115
Cash flow	$ 16,728	$ 8,762
per share (fully diluted)	$ 0.50	$ 0.25
Capital expenditures	$ 11,340	$ 11,757
Current assets	$ 22,681	$ 17,377
Total assets	$ 157,922	$ 149,781
Long-term debt	$ 39,045	$ 44,866
Total liabilities[1]	$ 73,742	$ 73,308
Shareholders' equity[1]	$ 84,180	$ 76,473
Number of common shares outstanding (000s)	33,209	34,211

NOTE 1:
During 1999, the Company adopted the liability method relating to accounting for income taxes. Previously the Company followed the deferred method. As a result of an adjustment to the initial calculation, 1999 total liabilities and shareholders' equity were adjusted by $2,185.

The substantial growth in revenue, EBITDA, cash flow and earnings relative to the increase in rig activity is testament to the Company's long-term growth strategy and directly reflects the extensive leverage Peak has to increasing activity levels. Over the last year, the Company has maintained a very intense internal growth focus concentrating on maximizing shareholder value through the successful expansion of several key revenue drivers including well-site accommodations, solids control and electronic instrumentation.





CORPORATE PROFILE

Peak Energy Services Ltd. ("Peak") is a leading Canadian oilfield service company providing drilling and production services to the western Canadian oil and gas industry. Founded in 1996, Peak has experienced significant growth by acquiring complementary service companies, integrating services and diversifying product lines.

Peak operates two divisions: Drilling Services and Production Services. The Drilling Services division offers well-site accommodations, solids control and other drilling related assets. The Production Services division offers products and services with a focus on producing oil and gas wells and includes production rentals and specialized fluid handling services. Peak's goal is to provide a full range of drilling, production and completion-related services to further establish itself as a dominant supplier for oil and gas producers throughout western Canada.

Q "What plans does Peak have for further growth?"

A "We will continue to execute our long-range plan for both external and internal growth. Currently, we are reviewing several merger and acquisition opportunities that have a strategic fit within our existing businesses. In addition, we have recently increased our capital expenditure budget for 2001 to $10 million, due to high demand from our customers in our Drilling Services division."

Chris Haslam, President and Chief Executive Officer

Q "What sort of objectives would Peak like to accomplish in its operations over the next year?"

A "There has been a lot of change throughout our organization over the past several years. During the last 12 months we have taken a closer look at the Senior Management roles within our business units and made some very positive changes. Succession issues drove some of these changes and some were made simply to shore up these operations with long standing, industry savvy managers. These individuals will be capable of helping us take these businesses to the next level. Over the next year we want to ensure that a strong corporate culture is instilled throughout our organization that will help forge a loyalty amongst our employees and customers. It is our belief that this will have a positive impact over the long-term."

Curt Whitteron, Vice President Operations

Q "How would you rate Peak's performance since it was founded in 1996?"

A "I would rate Peak's performance since it was founded to be exceptional. In four and a half years, Peak has exponentially grown from a company with no assets, no revenue and one employee in June 1996, to a thriving, highly profitable oil and gas service company with over 325 employees, an asset base of $158 million, a projected revenue stream of over $70 million for 2001 and a track record of consistently generating profits. This success is directly attributable to strong leadership, dedication and commitment of Peak's employees and management team to continually enhance shareholder value."

Matt Huber, Vice President Finance

FELLOW SHAREHOLDERS,

The year 2000 proved to be a turning point for the oil and gas services sector in Canada. With the resolve of OPEC, oil prices remained high during the year. High oil prices were complemented by historically high natural gas prices. The combination of strong hydrocarbon pricing resulted in record cash flow and earnings for many Canadian oil and gas producers. This resulted in a significant increase in their capital expenditure budgets, and ultimately, a strong increase in drilling activity. Peak was a major benefactor in this renewed emphasis on drilling in western Canada.

Generating Profits

In our 1999 message to shareholders, we stressed the fact that Peak management and staff had undertaken several initiatives during that year to position the Company to generate significant profitability once activity levels returned to normal levels, which we expected in 2000. We also discussed the strong operating leverage our business has to increases in activity levels and pricing, both of which increased significantly during 2000. Drilling rig utilization increased 33 percent in 2000 from an average of 48 percent in 1999 to 64 percent in 2000. On September 1, 2000, our drilling services subsidiaries led all of our competitors by increasing our prices by approximately 10 percent. This price increase had a strong impact on our margins, particularly in the fourth quarter of 2000 and continuing into 2001.

The year 2000 proved to be a strong year for activity and our results show the effect of our proactive approach to positioning Peak to generate superior profitability. During the year, revenue increased 42 percent from \$40.6 million in 1999 to \$57.7 million in 2000. Earnings before interest, taxes, depreciation and amortization ("EBITDA") increased 103 percent in 2000, increasing from \$10.1 million in 1999 to \$20.6 million in 2000. Cash flow from operations increased 91 percent, from \$8.8 million in 1999 to \$16.7 million in 2000, and net income increased 1248 percent from \$0.7 million in 1999 to \$10 million in 2000.

The substantial growth in revenue, EBITDA, cash flow and earnings relative to the increase in rig activity over the same time period is testament to the Company's long-term growth strategy and directly reflects the extensive leverage Peak has to increasing activity levels. Over the last several months, the Company has maintained a very intense internal growth focus concentrating on maximizing shareholder value through the successful expansion of several key revenue drivers, including well-site accommodations, solids control and electronic instrumentation. The expansion of these key areas, combined with the successful implementation of an aggressive pricing strategy that took effect in early September 2000, has enabled the Company to generate significant improvements in operating results due to our positive operating leverage.

Focused on Creating Shareholder Value

The Peak management team is committed to enhancing shareholder value. We are constantly reviewing alternatives to provide value to our shareholders through internal or external means. To that end, during 2000 we continued to repurchase our common shares through our normal course issuer bid. Throughout the year we acquired 1,270,100 of our common shares at an average price of \$1.92 per share, representing a 25 percent discount to our year-end book value of \$2.53 per share. While our focus over the past several months has been on internal expansion initiatives, we are actively reviewing several strategic acquisition or merger opportunities that would result in enhanced shareholder value.

Outlook

The outlook for the Company has never been stronger. Hydrocarbon prices have remained strong and the underlying fundamentals look positive, particularly with respect

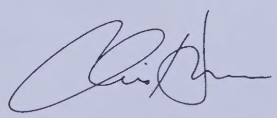
"The initiatives undertaken throughout 1999 positioned our Company to generate strong returns in 2000 and our expectations for 2001 is for continued year-over-year growth, due to strong demand for our products and services."

Chris Haslam, President and Chief Executive Officer

to natural gas prices in North America. The initiatives undertaken throughout 1999 positioned our Company to generate strong returns in 2000 and our expectation for 2001 is for continued year-over-year growth due to strong demand for our products and services. The first two months of 2001 are meeting our expectations as we have achieved record revenue, cash flow and earnings. We expect this trend to continue as we are currently reviewing the timing of further price increases in our Drilling Services division, which will result in increasing margins in these businesses.

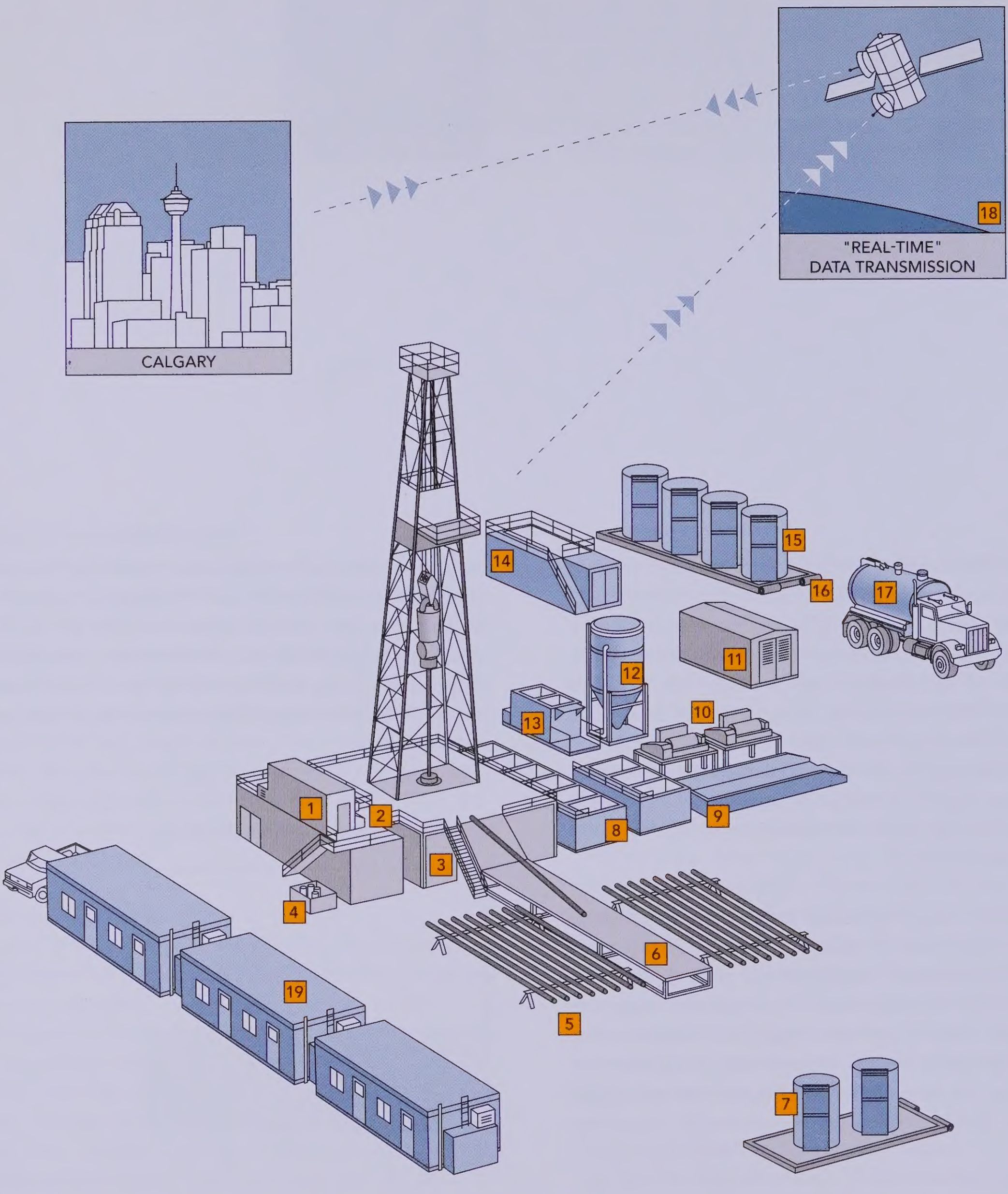
Our greatest challenge in 2001 will be how to continue to grow our business externally in the current capital market environment. Specifically, our share price is currently trading at historical lows on almost every valuation parameter. As a result, we will have to be very creative in accessing capital. We will not undertake a dilutive transaction for the sake of increased size to attract a larger multiple. To the contrary, we will continue to repurchase our shares under our normal course issuer bid if the market continues to present us with the opportunity to do so at less than our intrinsic value. In addition, we are constantly reviewing alternatives to enhance shareholder value including, but not limited to, mergers with or acquisitions of complementary businesses in the oil and gas services sector.

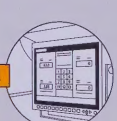
On behalf of the Board of Directors,



Christopher E. Haslam, CMA, CBV
President and Chief Executive Officer
March 15, 2001

DRILLING SERVICES





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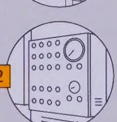

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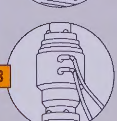


3

1 — Electronic drilling recorder/pit volume totalizer

2 — Choke panel & actuator

3 — Blowout preventor

4 — Subs, valves, flanges, handling tools

5 — Drill pipe, H.W. drill pipe, drill collars

6 — Catwalk

7 — Cement bin & water tank

8 — Surface tank

9 — Shale sloop

10 — Centrifuge

11 — Generator

12 — Cone tank

13 — Polymer tank

14 — Premix tank

15 — Mud storage tanks (400 BBL tanks)

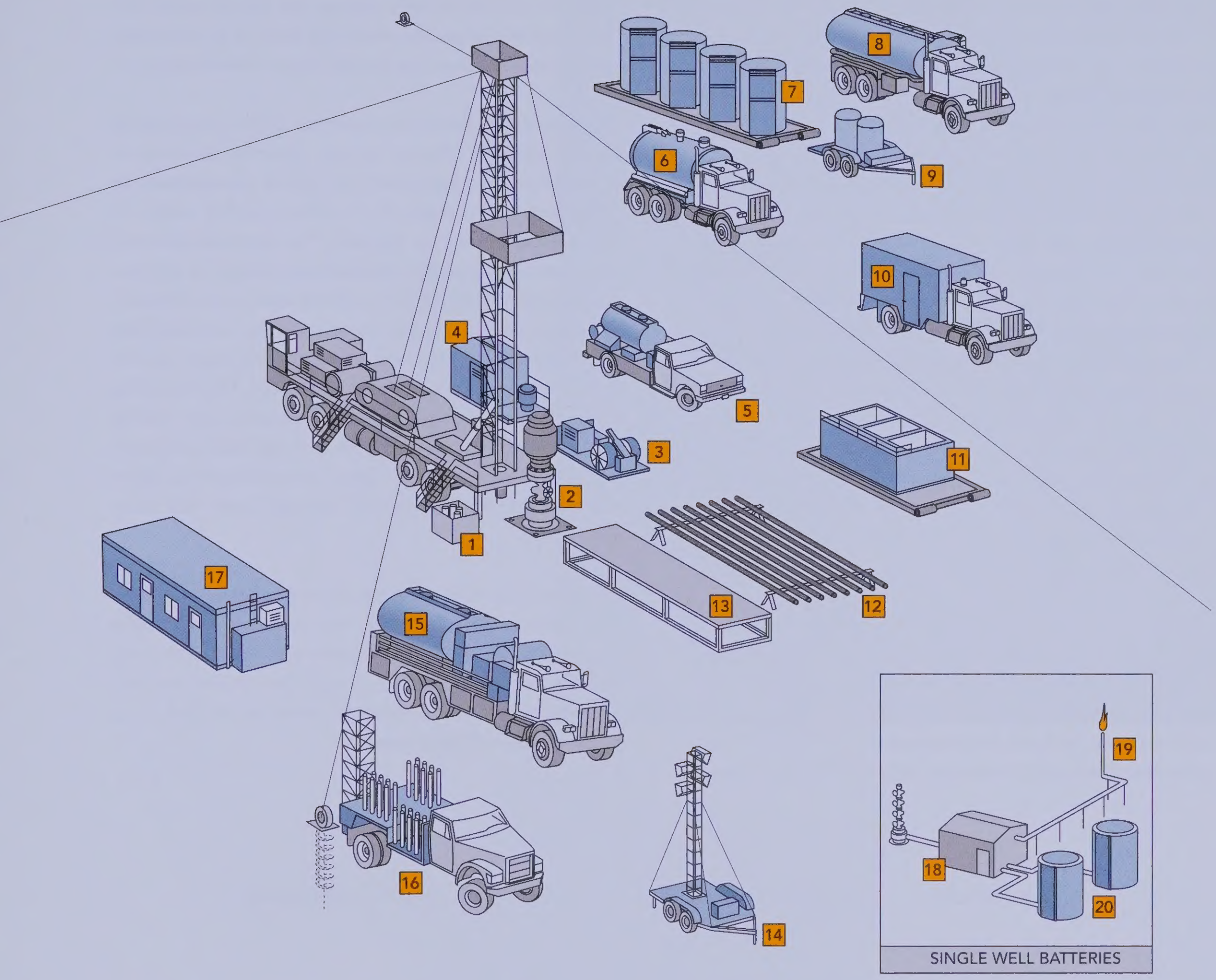
16 — Rig matting

17 — Vacuum truck

18 — "Real-time" data transmission

19 — Well-site accommodations

This represents a selection of the various services and rental equipment that Peak provides through its Drilling Services division.



1 — Subs, valves, flanges, handling tools, pup joints	11 — Rig tank with matting
2 — Wellhead with blowout preventor	12 — Production tubing, frac pipe, workover tubing
3 — Power swivel	13 — Catwalk
4 — Accumulator	14 — Light tower
5 — Pressure truck	15 — Hot oiler truck
6 — Vacuum truck	16 — Anchor truck
7 — Frac tanks with matting	17 — Well-site accommodations
8 — Tank truck	18 — Separator
9 — Filter unit	19 — Flare stack
10 — Steam truck	20 — Production tank

This represents a selection of the various services and rental equipment that Peak provides through its Production Services division.

Since our inception in 1996, our strategy for growth has remained intact throughout the cyclical highs and lows of the oil and gas services industry. This strategy has been to capitalize on producers' demands to reduce the number of suppliers they deal with and develop long-term relationships with companies that can supply them with an integrated package of services and equipment over a broad geographic region. Our growth has been fueled by a combination of 15 strategic acquisitions and internal expansion totaling more than $60 million.

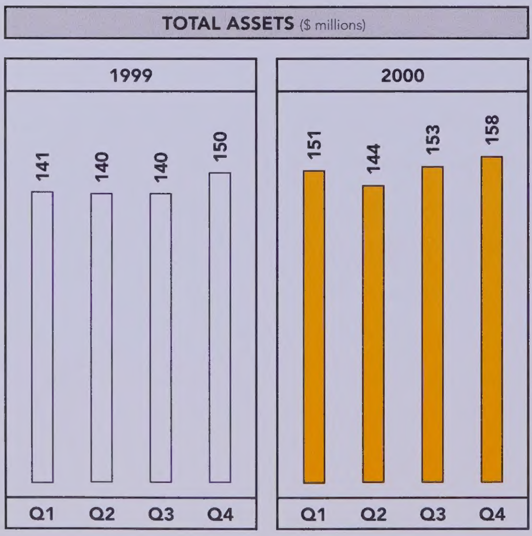
We have proven our ability to successfully manage this rapid growth as we now operate our business under four business units that work in two distinct divisions, Drilling Services and Production Services. These subsidiaries operate from strategic locations throughout the Western Canadian Sedimentary Basin. This broad geographic coverage gives our customers convenient access to our rental fleet in the many remote areas they operate in. Peak enjoys a reputation of supplying superior equipment and a high quality of service to its customers. Our customer base is made up of over 300 operators including the top 15 most active operators in Canada. We have developed strong alliances with most of these active operators.

Throughout our history, Peak management has been focused on opportunities that will enhance shareholder value. During the past year, we strongly believed that our share price was not reflecting the intrinsic value of our business. As a result, we acquired 1,270,100 of our common shares at an average cost of $1.92 per share.

We continue to believe that the capital market is not reflecting our intrinsic value. This year will be a record year for the Company in all respects. That said, our market value is at historical lows on almost every valuation parameter. As long as this value gap persists, we will continue to opportunistically acquire our shares under our normal course issuer bid, which will result in incrementally higher rates of return on capital for our shareholders.

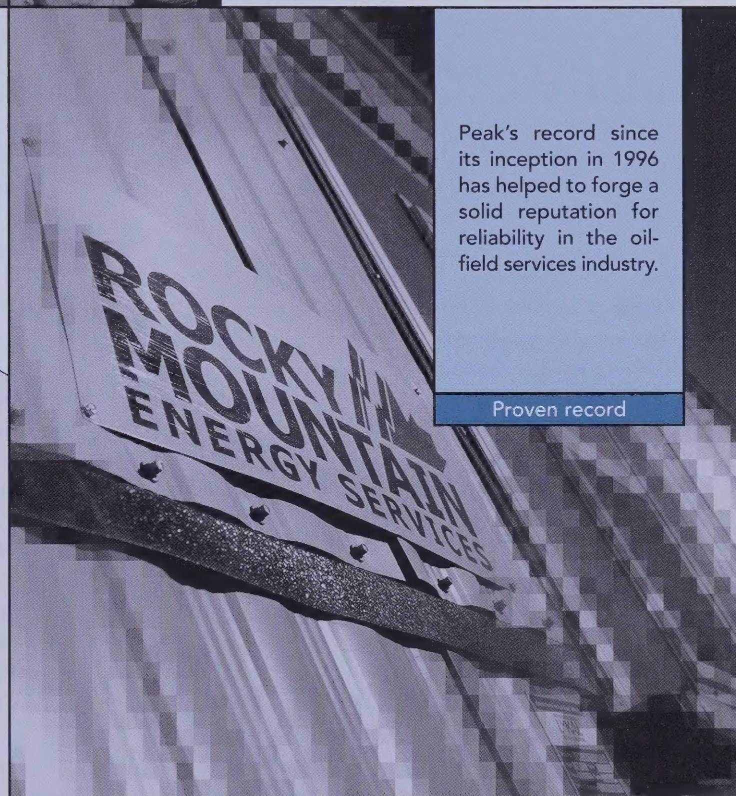
We have also recently increased our capital expenditure budget for 2001. Due to strong customer demand for our services, we increased our capital expenditures in 2000 from our budget of $7 million, to $11 million in actual expenditures for the year. This continued demand has resulted in a capital expenditures budget of approximately $10 million for 2001. Of this total, approximately $3 million will be utilized to maintain our existing fleet of equipment to the high standards we have set for ourselves and enjoyed by our customers. The remaining $7 million will be focused on expanding our drilling instrumentation, solids control and well-site accommodation businesses. This capital expenditure program will be completely financed through cash flow from operations.

In addition to continuing our share buyback and capital expenditure program, we are constantly reviewing alternatives to enhance shareholder value. This may include a strategic merger, acquisition or the sale of a business division to "monetize" what we believe to be the true value of our business.



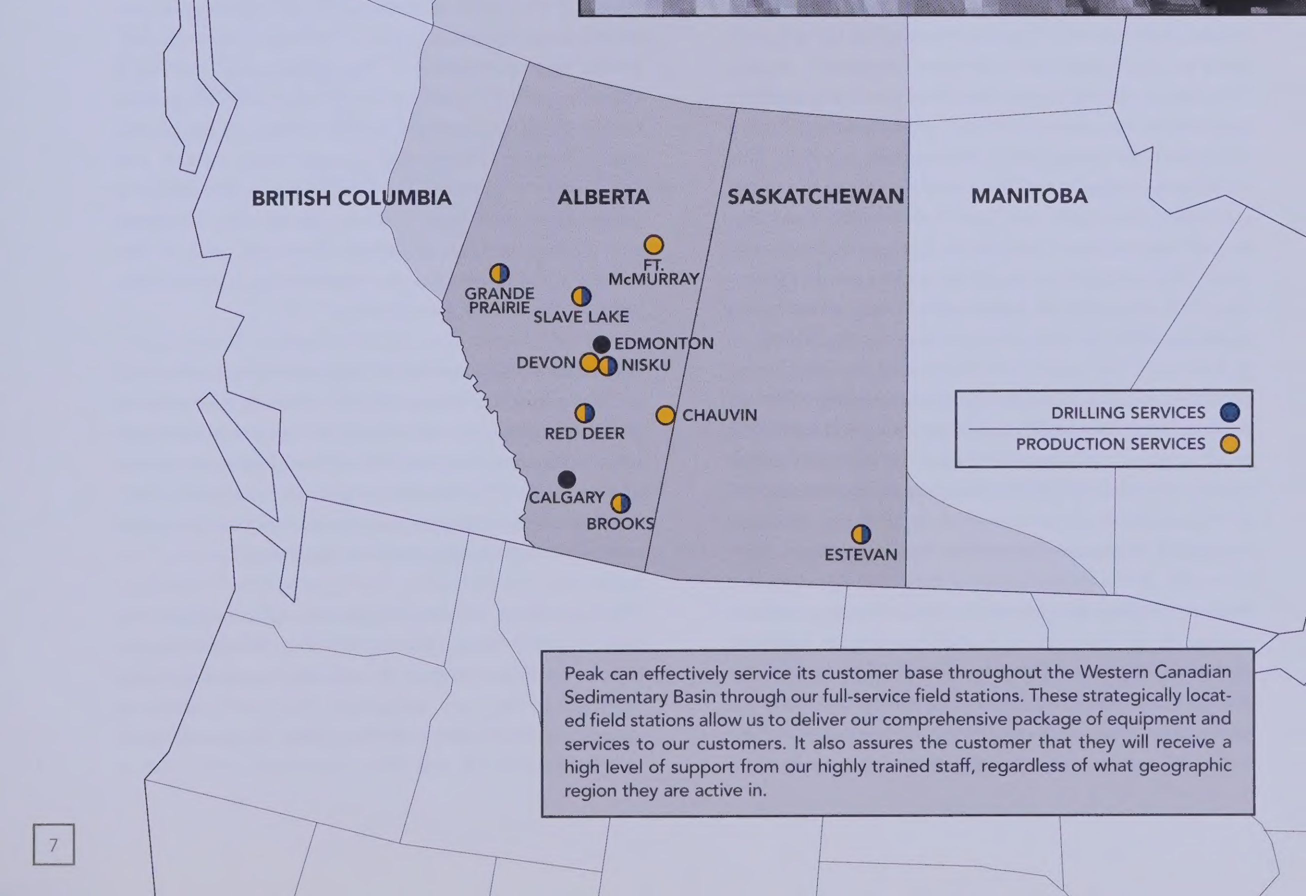
"Our mission is to provide our customer base with top-notch equipment and highly trained staff. This combination ultimately helps to reduce their costs at the wellhead."

Curt Whitteron, Vice President, Operations



Proven record

Peak's record since its inception in 1996 has helped to forge a solid reputation for reliability in the oil-field services industry.



Peak can effectively service its customer base throughout the Western Canadian Sedimentary Basin through our full-service field stations. These strategically located field stations allow us to deliver our comprehensive package of equipment and services to our customers. It also assures the customer that they will receive a high level of support from our highly trained staff, regardless of what geographic region they are active in.

WELL-SITE ACCOMMODATIONS

Peak's well-site division is engaged in the custom manufacturing and rental of high quality well-site accommodation units. These accommodation units are utilized as living quarters for engineers, geologists and other technical staff who are required to reside in remote locations. Given that these personnel are required to be on location 24 hours a day over an extended period of time, it is important that these units are equipped with state-of-the-art amenities and that they are in top-notch working order.

Over the past year we have not expanded the total number of well-site trailers in our fleet, but we did build 17 new units to replace older units that were disposed of during the course of the year. In addition 30 units in the fleet were refurbished. The combination of these new units and our refurbishment program ensure the average age of our fleet is much lower and the condition of our fleet much higher than industry standards. Peak remains the largest supplier of well-site accommodations in Canada with 355 units and an approximate market share of 30 percent.

Our well-site accommodation division runs under the umbrella of our subsidiary company, Rocky Mountain Energy Services, with its head office in Calgary. Our well-site division is further supported by six strategically located operating facilities in Grande Prairie, Slave Lake, Nisku, Red Deer (includes manufacturing plant), Brooks and Estevan. These stations allow us to better serve our customers over a broader geographic region. The main competitive advantage Peak has in this business segment is our state-of-the-art manufacturing facility from which we design, build and maintain our fleet. This allows us to better meet the ever-changing needs of our customers. During the past year Peak initiated a successful plan and realized a substantial increase in third party builds for portable housing/office trailers in other industries. This allowed us to better utilize our manufacturing plant capacity.

With the up-swing in activity experienced during 2000 our well-site accommodation division generated $14.4 million or 25 percent of our total revenue for the 12 months ended December 31, 2000. This compares to $8.5 million or 21 percent of our total revenue for 1999 and shows an increase of 69 percent in revenue, year-over-year.

Peak is well positioned for the future in the well-site market as it maintains a broad client base with key customers that are both heavily involved in horizontal drilling and highly leveraged to gas production. With the commodity prices realized through the end of 2000 and industry fundamentals remaining strong, we expect the percentage of horizontal wells and deeper gas wells drilled in the Western Canadian Sedimentary Basin in 2001 will continue to grow. For these reasons Peak expects utilization rates to show a significant improvement in 2001.

This business is expected to contribute approximately 28 percent of Peak's total revenue for 2001. Capital expenditures for 2001 will be approximately $2.4 million. The majority of this will be spent on the addition of new units to further strengthen our position in what is expected to be a record year in 2001.

SOLIDS CONTROL

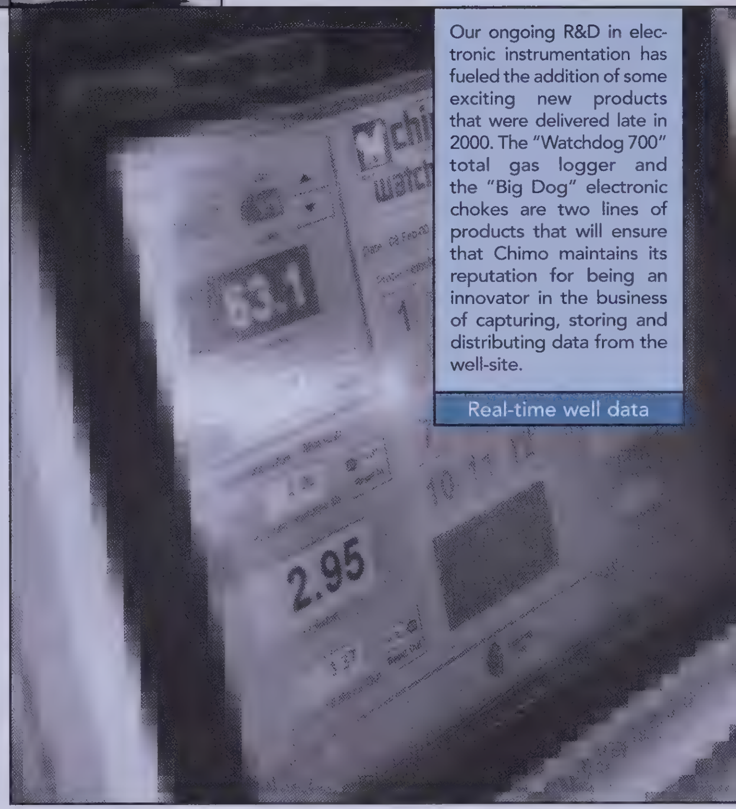
Peak's solids control division is used primarily for the removal of well-bore cuttings from drilling fluids by way of our sumpless drilling systems. These systems are used in conjunction with other equipment typically supplied by the drilling rig and act as a method of further refining the process by removing the finer particulate matter that has not been removed from the drilling fluid. The nucleus of our sumpless drilling systems is the high-speed centrifuge. The balance of equipment required to make up these systems is a series of pumps and tanks that surround the centrifuge. These systems are packaged to meet the customer's exact requirements and specifications. This type of equipment is very important to the success and safety of drilling operations. It is predominantly used in deeper drilling and horizontal applications where, if the solids content of the drilling mud is not strictly controlled it can cause formation damage that affects the economics of the drilling play, well-bore integrity problems that can lead to expensive down-hole tools becoming damaged or lost in the well-bore and well control problems that create large safety and environmental liabilities. Centrifuges are in demand for a multitude of other uses including production, industrial and environmental applications. However, due to the current high demand we are experiencing, our focus has been on the oil and gas industry.

This division has experienced exponential growth since our entry into the market. Peak's solids control division remains the second largest supplier of solids equipment in Canada, where we have 125 units and an approximate market share of 20 percent. The expansion of this division has come through a combination of internal capital expenditures and opportunistic acquisition.

Peak continues to look for growth opportunities. We have recently taken delivery of four state-of-the-art, high volume centrifuges. These centrifuges have been pre-booked by our customers and will command approximately double the day rates of our existing machines.

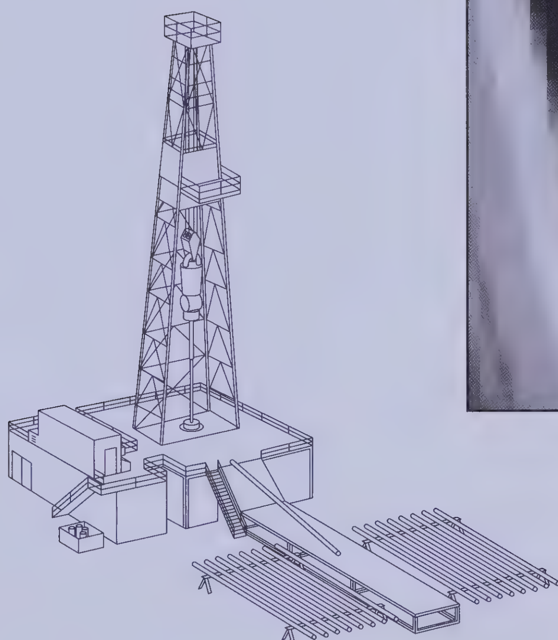
"Our main competitive advantage is that we provide the highest quality equipment in the industry complemented by superior service over a broad geographic region."

Chris Haslam, President and Chief Executive Officer



Our ongoing R&D in electronic instrumentation has fueled the addition of some exciting new products that were delivered late in 2000. The "Watchdog 700" total gas logger and the "Big Dog" electronic chokes are two lines of products that will ensure that Chimo maintains its reputation for being an innovator in the business of capturing, storing and distributing data from the well-site.

Real-time well data



Peak's solids control division runs under the Rocky Mountain Energy Services subsidiary with its headquarters based in Calgary. Like our well-site accommodation division, our solids control division also has strategically located operating facilities in Grande Prairie, Slave Lake, Nisku, Red Deer, Brooks and Estevan. Being located in these regions gives our customers access to equipment and service personnel throughout the Western Canadian Sedimentary Basin. Peak's main competitive advantage in this division remains the age and quality of our rental fleet in comparison to our peers in the industry and the high level of service we offer.

With the significant increase in activity experienced during 2000, combined with the full impact of the 41 centrifuges we purchased in October 1999, our solids control division generated $16.3 million or 28 percent of our total revenue for the 12 months ended December 31, 2000. This compares to $10.6 million or 26 percent of our total revenue for 1999 and shows a significant increase of 54 percent in revenue, year-over-year.

Peak is well positioned for the upcoming year. We expect activity levels will reach unprecedented levels. This business is expected to contribute approximately 28 percent of Peak's revenue in 2001. Capital expenditures will be approximately $2.7 million for 2001, the majority of which will be spent on the addition of four new high-volume centrifuges with the balance going towards the refurbishment of our existing equipment.

DRILLING INSTRUMENTATION

Our drilling instrumentation division is engaged in the manufacturing and rental of electronic instrumentation equipment used to monitor, gather and record critical data on the drill site. The two main pieces of equipment used in the drilling instrumentation division are the pit volume totalizer ("PVT") and the electronic drilling recorder ("EDR"). The PVTs monitor drilling mud flow in and out of the well-bore. In critical sour gas and high-pressure areas, PVTs are required by government regulations to ensure environmental protection and safety of personnel by eliminating or reducing the chance of a blowout. The EDR is a real-time data gathering system that monitors up to 52 critical functions on the drill site. This division also offers a full suite of ancillary control items to customers that further complement these two main products. Peak operates this division under the Chimo Equipment Ltd. subsidiary with its head office in Calgary. Chimo also operates from a field office, manufacturing and service centre in Nisku and two strategically located field operations in Grande Prairie and Calgary.

The introduction of Chimonet as our data server in 2000 has allowed our customers to store and access their information in a professionally managed, secure, offsite database. With the industry acceptance of Chimonet growing, it has provided us with a steadily increasing revenue stream throughout 2000. The introduction of the Watchdog 700 portable gas detector had a significant impact on the growth of revenue for this division in 2000. This product measures total gas and has been very well accepted. It is expected to be running at close to 100 percent utility in early 2001. Chimo also introduced its Big-Dog electronic choke late in 2000. This product has been field tested with a great deal of success and is expected to provide a large growth market for Chimo in 2001. The ongoing development of new cutting edge products will continue to fuel the growth of this division. Chimo continues to operate approximately 10 units in the Gulf Coast region of the United States. Management is currently developing strategies to further penetrate the U.S. drilling market.

Chimo generated $8.9 million in revenue or 16 percent of Peak's total revenue for the 12 months ended December 31, 2000. This compares to $5.8 million or 14 percent in 1999 and shows a significant increase of 53 percent in revenue, year-over-year. The drilling instrumentation division is expected to contribute approximately 17 percent of Peak's total revenue for 2001.

PRODUCTION SERVICES OVERVIEW

Our Production Services division provides a full range of equipment and services that play a key role in maximizing the productivity of a well bore. This broad range of services includes everything from well-bore treatments to hauling crude oil from the wellhead to the terminal. From a strategic standpoint, this division helps to reduce the seasonality and cyclicality of our larger Drilling Services division.

We continue to see significant growth in revenue year-over-year in this division. The drivers for this continued growth in 2000 were the increased activity in the oilfield services sector and the first full year of operation for our subsidiary Rocky Mountain Energy Services, formed in July 1999. With all of our production rental equipment operating under the Rocky Mountain Energy Services name we were able to take advantage of a wider distribution of equipment through a broader geographic area.

PRODUCTION RENTALS

Peak's production rentals business provides a full suite of production rental equipment including tanks, pumps, separators, pressure vessels, tubulars, handling tools, power swivels, accumulators, blowout preventors, rig tanks, flare stacks and ancillary fracturing equipment. Rocky Mountain Energy Services' production rental business also operates from six additional stations. These strategically located stations are in Grande Prairie, Slave Lake, Nisku, Red Deer, Brooks and Estevan. Consistent with our Drilling Services divisions, the head office of our production rentals business resides in Calgary.

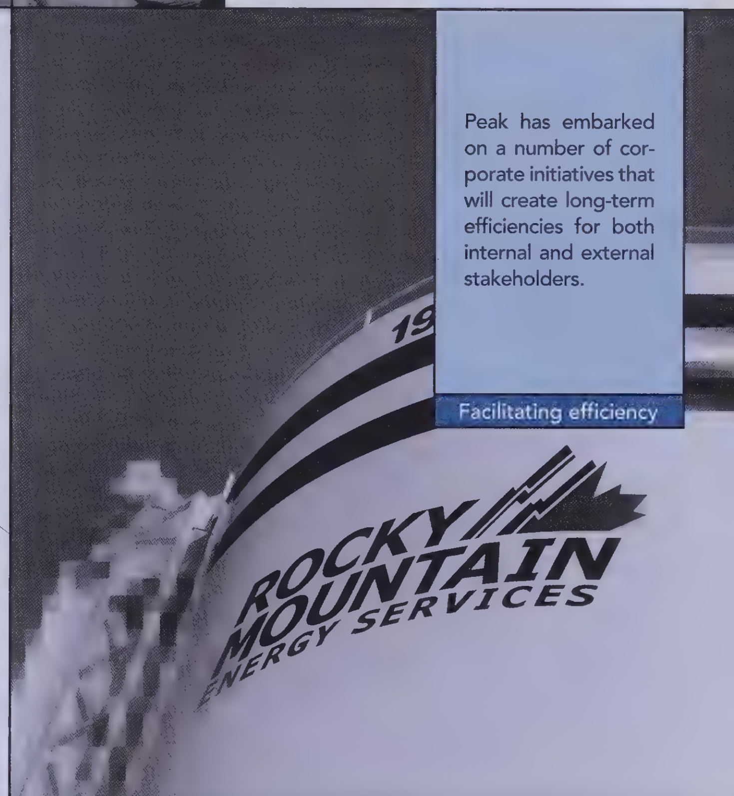
Peak continues to operate its small but profitable subsidiary involved in providing tension-anchoring services to the industry, primarily for service rigs. Peak Anchor Services operates under the trade names of Anchor King in Red Deer, Stettler, Slave Lake and High River and Anchor Specialties in Chauvin, Lloydminster and Macklin.

SPECIALIZED FLUIDS HANDLING

This division is operated under our Lorchem Industries subsidiary and is based in Devon. The company further supports its customer base by providing a full package of services in two satellite stations located in Calmar and Red Deer.

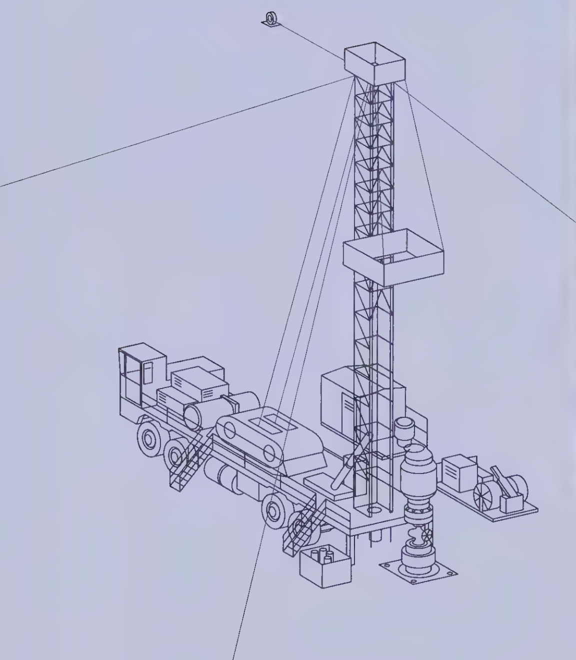
"Strategically, our Production Services division plays a key role in our organization by helping to reduce the seasonality of our larger Drilling Services division."

Curt Whitteron, Vice President, Operations



Peak has embarked on a number of corporate initiatives that will create long-term efficiencies for both internal and external stakeholders.

Facilitating efficiency



Lorchem manages a fleet of modern, well maintained tank trucks that handle all types of oilfield fluids including produced oil, slop oil, acid, frac fluid, methanol and glycol. They also provide vacuum trucks, pressure trucks, industrial cleaning and hot oiler services to the oil and gas industry.

Lorchem is also under contract to Syncrude Canada in Ft. McMurray, where they provide all Syncrude's fluids handling needs on their oil-sands site. The scope of this contract has expanded in 2000 with the opening of the new Aurora mine site located north of the main mine. The magnitude of this expansion into the Aurora site for Lorchem is not totally clear at this point, however it had a significant positive impact on the Company in late 2000 and should steadily grow as 2001 progresses. Lorchem has been under contract to Syncrude since 1978.

Our Production Services division once again showed growth in revenue year-over-year. It generated $18.1 million or 31 percent of Peak's revenue for the 12 months ended December 31, 2000. This compares to $15.7 million, or 39 percent of our total revenue, in 1999 and shows an increase of 15 percent in revenue year-over-year. The division is a consistent performer and continues to reduce our exposure to the cyclicality and seasonality of our Drilling Services division. The Production Services division is expected to contribute approximately 27 percent of Peak's total revenue for 2001.

Peak believes that our ability to provide comprehensive service packages for our customers over a broader geographic region is our main competitive advantage in this area. Our mission is to continue to develop relationships and to provide a high quality of service and equipment that will ultimately help our customers reduce their production costs at the wellhead.

ORGANIZATION CHART

PEAK ENERGY SERVICES

Drilling Services
2000 – 69% of revenue

Rocky Mountain Energy Services — Drilling-related Rental Equipment

Well-site Accommodations
- Engineer/geologist units
- Command centres
- Office trailers
- Sleepers
- Custom design units
- Satellite systems

Solids Control
- Sumpless drilling systems
- Centrifuges
- Surface tanks
- Sump tanks
- Shale sloops
- Cone tanks
- Premix tanks
- Polymer tanks
- Shale shakers
- Rig matting

Miscellaneous
- Drill pipe
- HW drill pipe
- Drill collars
- Handling tools
- BOP equipment
- Accumulators
- Spools and flanges
- HCR valves
- Power tongs

Chimo Equipment — Electronic Drilling Instrumentation
- Electronic drilling recorders (real-time data acquisition)
- Pit volume totalizers
- Choke panels & actuators
- Gas detection
- Electronic tour sheet
- Data management services

Production Services
2000 – 31% of revenue

Rocky Mountain Energy Services — Production Rental Equipment

Production
- Production tanks
- Production tubing
- Single well batteries
- Separators

Service Rigs
- Rig tanks
- Rig matting
- Flare stacks
- Power swivels
- Workover tubing
- Handling tools
- Pup joints
- BOP equipment
- Accumulators
- Spools, flanges, valves
- Light towers
- Power tongs

Frac Packages
- Frac tanks
- Frac heads
- Flow back tanks
- Frac tubing
- Filter units

Peak Anchor Services — Anchor Services
- Anchoring service rigs
- Anchoring flarestacks
- Industrial applications

Lorchem Industries — Speciality Fluids Handling
- Completion fluid hauling (frac fluid, acid etc.)
- Crude oil hauling
- Chemical hauling (methanol, glycol etc.)
- Water hauling
- Hot oiler units
- Pressure trucks
- Vacuum trucks
- Steamer units

Our corporate structure shows two distinct divisions; Drilling Services and Production Services. Early in our growth curve Peak recognized the need to continue to diversify into Production Services. This has proven to be a successful strategy in that our cash-flow stream is less cyclical. Although our Drilling Services division tends to produce higher margins, it is subjected to more volatility based on seasonality and industry fundamentals.

MANAGEMENT'S DISCUSSION AND ANALYSIS

12 months ended December 31, 2000

This management's discussion and analysis focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties relating to the oilfield service industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the year ended December 31, 2000, should be read in conjunction with the financial statements and related notes and material contained in other parts of this annual report.

RESULTS OF OPERATIONS

Revenue

Peak reported a 42 percent increase in total revenue in 2000 to $57.7 million compared to $40.6 million in 1999. The active rig utilization over the corresponding period increased by 33 percent in 2000 from an average of 48 percent in 1999 (278 out of a fleet of 578 rigs) to an average of 64 percent, (386 out of a fleet of 602 rigs) for the same period in 2000. By comparison, the nine-year average for active rigs was 63 percent with the all-time high achieved in 1997 when an average of 85 percent of the available fleet went to work during that year (436 rigs out of a fleet of 511 rigs). The strengthening experienced in 2000 was further evidenced by the increase in the number of wells completed and meters drilled during the year relative to 1999. Total well completions increased by 56 percent to 16,485 during 2000 compared to 10,466 in 1999. The total number of meters drilled increased by a corresponding 43 percent over the same time period, increasing from 10,592,462 meters in 1999 to 15,097,800 in 2000.

The continual strengthening of commodity prices over the last 23 months remains the primary contributing factor driving the significant increase in drilling activity year-over-year and the return to more normalized activity levels for the year overall. Since February 1999, the average WTI price has increased by 186 percent from a low of $12.00 US/BBL to an average high of $34.36 US/BBL in November 2000 before retracting slightly to $29.44 US/BBL in December 2000. Over the same time period, average NYMEX front month gas prices have advanced from a low of $1.76 US/mcf in February 1999 to a high of $8.22 US/mcf in December 2000.

Drilling Services contributed 69 percent of revenues for 2000 compared to 61 percent in 1999. The swing this year to a higher drilling services revenue mix reflects the significant increase in drilling activity in 2000 relative to 1999. This division is comprised of the following services:

- Peak's well-site accommodations division contributed revenue of $14.4 million or 25 percent, compared to $8.5 million or 21 percent in 1999. Revenues increased due to the increase in activity noted above.

- Peak's solids control division contributed $16.3 million in revenues or 28 percent, compared to $10.6 million or 26 percent in 1999. The significant increase was due to the increase in activity during 2000 combined with the full year impact of the 41 centrifuges purchased in October 1999.

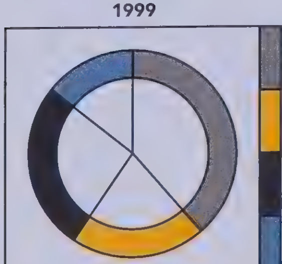
- Peak's drilling instrumentation division contributed $8.9 million in revenues or 16 percent, compared to $5.8 million or 14 percent in 1999.

Peak's Production Services division contributed 31 percent of revenue for the year or $18.1 million in revenues compared to $15.7 million or 39 percent in 1999.

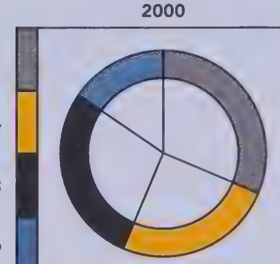
Operating Expenses

Operating expenses, excluding external cost of sales of $2.2 million, were $21.4 million or 40 percent of operating revenue in 2000. By comparison, operating expenses prior to external cost of sales of $1.5 million were $16.1 million or 41 percent of operating revenue in 1999. This increase over the prior year is directly attributable to increased activity levels and is consistent with the increase in revenues over the corresponding period.

REVENUE BY DIVISION ($ millions)



1999		2000
15.7	Production Services	18.1
8.5	Well-site Accomodations	14.4
10.6	Solids Control	16.3
5.8	Drilling Instrumentation	8.9



General and Administration Expenses

General and administration expenses were $13.6 million or 24 percent of operating revenue in 2000, compared to $12.9 million or 32 percent of operating revenue in 1999. General and administration expenses include salaries and benefits for office staff, rent, utilities and communications in the Company's various divisional offices and its corporate head office. General and administration expenses also include costs to maintain the Company's public listing and professional fees required to operate the head office.

The increase in general and administration expenses over the prior year was mostly attributable to an increase in sales commissions directly related to the increase in revenue and an increase in variable compensation during the year.

Interest Expenses

Interest on long-term debt was $3.5 million or six percent of operating revenue in 2000, compared to $2.8 million or seven percent of operating revenue in 1999. The increase is due to the higher level of debt in 2000 compared to 1999 (averaging $44 million in 2000 compared to $40.6 million in 1999) and slightly higher interest rates in 2000.

Depreciation and Amortization

Depreciation and amortization was $5.9 million in 2000, compared to $5.6 million in 1999. The increase compared to 1999 is the result of capital asset additions over the past 12 months and higher equipment utilization in 2000.

Income Taxes and Net Income

Peak recorded net income of $10 million ($0.29 per share fully diluted) in 2000 compared to $0.7 million ($0.02 per share fully diluted) in 1999. The current income tax provision of $0.3 million is primarily large corporation tax. The future provision is $1.0 million. This is lower than anticipated due to the effect of lower income tax rates announced by the Federal government. These reductions will see the effective tax rate on ordinary income for an Alberta corporation reduced from 43.62 percent in 2001 to 37.62 percent in 2004. Pursuant to accounting rules for future income taxes, once future income tax rates are "substantially enacted", companies are required to revalue their future income tax position based on the new rates. As a result of complying with these rules, the Company recorded a reduction in future income tax expense of approximately $4 million ($0.11 per share) in 2000.

During 1999, the Company adopted the liability method relating to accounting for income taxes. Prior to this, the Company followed the deferral method. The new policy was applied retroactively and opening retained earnings in 1999 was reduced by $15.6 million representing the cumulative effect of the change on prior periods of which $13.4 million was reflected in 1999, adjusted by $2.2 million in 2000 upon correction of the initial calculation.

The combination of the new liability method of accounting for income taxes and the new disclosure allowing the presentation of income before goodwill amortization has allowed the Company to reflect close to the statutory tax rate going forward.

LIQUIDITY AND CAPITAL RESOURCES

Funds Provided by Operations

Funds provided by operating activities, before changes in non-cash working capital components, were $16.7 million ($0.50 per share) in 2000 compared to $8.8 million ($0.25 per share) in 1999. This 91 percent increase in cash flow reflects the significant leverage the Company has to increasing activity levels.

Investments

Net cash used in investing activities in 2000 was $8.6 million compared to $10.7 million in 1999. The decrease in 2000 was primarily due to lower capital expenditures and proceeds received on the disposal of a long-term investment.

Financing

Net cash used in financing activities in 2000 was $3.1 million compared to a source of cash of $10.7 million in 1999. The net use of cash from a financing perspective in 2000 was due primarily to decreased long-term debt borrowings. The Company shifted from a net increase in long-term debt of $11.2 million in 1999 to net repayment of $4.5 million in 2000. Also contributing to the net use of cash was the $0.7 million increase related to the repurchase of share capital.

Liquidity

The Company had net working capital of $10.8 million at the end of both 1999 and 2000. As at December 31, 2000, shareholders' equity was $84.2 million, compared to $76.5 million at the end of 1999, and long-term debt was $39.0 million at the end of 2000, compared to $44.9 million at the end of 1999. Basic earnings per share from continuing operations were $0.30 in 2000 compared to $0.03 in 1999 and fully diluted earnings per share from continuing operations were $0.29 for 2000 compared to $0.03 for 1999.

"From a pure market perspective, Peak delivered superior returns over the last two years with its stock price increasing by 95 percent in 1999 and a further 44 percent in 2000, significantly outpacing the TSE 300 index returns of 30 percent and six percent over the corresponding period. This positions Peak as one of the top ten public companies in the oil and gas service sector during this time period."

Matt Huber, Vice President, Finance

Long-term Debt

At the end of December 2000, the Company had reduced its long-term debt by $4.5 million from $46.3 million at the end of 1999 to $41.8 million at the end of December 2000.

The Company's debt facility consists of:

- An acquisition facility authorized for $25 million. Currently the Company has $18.5 million drawn on this facility. This loan has the flexibility to be drawn down and repaid without incurring any penalties and is payable to a Canadian chartered bank requiring monthly interest payments only until May 2002. The Company anticipates this facility will be extended on an interest only basis for a further 24-month term coinciding with the annual review in May 2002. The loan is utilized to fund capital expenditures and acquisitions as required and is secured by accounts receivable and certain equipment.

- A $9.8 million loan payable to First Treasury Financial Inc. requiring quarterly principal payments of $0.3 million. Interest is calculated at 8.03 percent. The loan matures May 2004 and is secured by certain equipment.

- A $4.9 million loan payable to First Treasury Financial Inc. requiring monthly interest payments and quarterly principal payments of $0.1 million. Interest is calculated at BA rates plus 1.65 percent. The loan matures May 2004 and is secured by certain equipment.

- An $8.6 million loan payable to GE Capital Corporation requiring monthly payments of $0.1 million including interest at bank prime rate plus 1.5 percent. The loan matures July 2004 and is secured by certain equipment.

All covenants were satisfied at the end of December 2000 and all banking requirements were up to date.

Share Capital

The Company's common share capital decreased from $83 million at the end of 1999 to $80.1 million at the end of 2000 due to the continuation of the normal course issuer bid, which was renewed for another 12-month period effective May 10, 2000. The Company has purchased 1,270,100 shares since the end of 1999 at an average price of $1.92 per share. Of the 1,270,100 shares repurchased in 2000, 374,400 apply to the issuer bid renewed on May 10, 2000. Since 1998, the Company has repurchased 4,043,100 shares at an average price of $2.16.

Share capital at December 31, 2000, consisted of 33.2 million common shares, or 36.1 million common shares on a fully diluted basis.

BUSINESS RISK AND MANAGEMENT

The oil and gas services industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. These companies base their capital expenditures on several factors including, but not limited to, hydrocarbon prices, production levels of their current reserves and access to capital. Activity levels are ultimately dependent on the above factors. There tends to be a lag time however, as most oil and gas producers and explorers do not change their capital expenditure budgets due to short-term changes in any one of the above factors.

The segments of the oil and gas service industry in which Peak operates are heavily reliant on the level of drilling activity in western Canada. There is a direct correlation between drilling activity and utilization rates for the company's services.

Peak has a comprehensive insurance and risk management program in place to protect its assets and operations. This program meets or exceeds industry standards. The company also has programs in place to ensure it meets or exceeds current environmental standards. Peak's internal safety procedures include detailed safety and operating procedure manuals for each of its subsidiaries, as well as required internal and external safety environmental response and operating training for all employees. The general managers of each of Peak's subsidiaries are required, in the event of any incident, to report to Peak's Vice President, Operations.

OUTLOOK

The substantial growth in revenue, cash flow and earnings relative to the increase in rig activity over the same time period is testament to the Company's long-term growth strategy and directly reflects the extensive leverage Peak has to increasing activity levels. Over the last several months, the Company has maintained a very intense internal growth focus concentrating on maximizing shareholder value through the successful expansion of several key revenue drivers including well-site accommodations, solids control and electronic instrumentation. The expansion of these key areas combined with the successful implementation of an aggressive pricing strategy that took effect in early September 2000 has enabled the Company to generate significant improvements in operating results due to our positive operating leverage.

The outlook for the Company has never been stronger. Activity is currently at the highest level in the history of the Canadian oil and gas services industry and we are continuing to reap the benefits of our positive operating leverage early in 2001. As long as hydrocarbon prices remain stable we expect these strong activity levels to continue into 2002. The Peak management team remains highly committed to maximizing shareholder value and will continue to review any strategic opportunities, internal or external, that will assist in realizing this objective.

REPORT FROM MANAGEMENT

All information presented in the annual report is the responsibility of the Company's management. The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

The Company's management has implemented and maintained internal controls to provide reasonable assurance that assets are properly safeguarded and that transactions and financial records are properly recorded and maintained to provide reliable financial information.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and KPMG, the company's external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Christopher E. Haslam, CMA, CBV
President and Chief Executive Officer
March 15, 2001

Matthew J. Huber, CA, CMA
Vice President, Finance
March 15, 2001

AUDITOR'S REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Peak Energy Services Ltd. as at December 31, 2000 and 1999, and the consolidated statements of income, retained earnings (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 16, 2001

CONSOLIDATED BALANCE SHEETS

As at December 31	2000	1999
($ thousands)		(Restated note 2)
ASSETS		
Current assets:		
Accounts receivable	$ 18,897	$ 14,830
Prepaid expenses	1,601	1,645
Inventory	2,183	902
	22,681	17,377
Capital assets (note 3)	114,733	109,951
Goodwill less accumulated amortization of $3,945 (1999 – $2,760)	19,858	21,043
Other assets	650	1,410
	$ 157,922	$ 149,781
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (note 4)	$ 4,802	$ 1,699
Accounts payable and accrued liabilities	4,341	3,493
Current portion of long-term debt (note 5)	2,772	1,419
	11,915	6,611
Long-term debt (note 5)	39,045	44,866
Future income taxes	22,782	21,831
Shareholders' equity:		
Share capital (note 6):		
Common shares	80,134	83,044
Contributed surplus	1,767	1,126
Retained earnings (deficit)	2,279	(7,697)
	84,180	76,473
Commitments (note 9)		
	$ 157,922	$ 149,781

See accompanying notes to consolidated financial statements.

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31	2000	1999
($ thousands, except per share amounts)		
Revenue	**$ 57,668**	$ 40,573
Expenses:		
Operating	**23,539**	17,588
General and administration	**13,502**	12,870
Depreciation	**4,697**	4,402
Interest on long-term debt	**3,452**	2,763
Other interest	**52**	–
	45,242	37,623
Income from continuing operations before income taxes	**12,426**	2,950
Income taxes (note 7):		
Current	**297**	(1,322)
Future	**968**	2,093
	1,265	771
Income from continuing operations before goodwill amortization	**11,161**	2,179
Amortization of goodwill, net of income taxes	**1,185**	1,175
Income from continuing operations	**9,976**	1,004
Loss from discontinued operations (note 10)	**–**	(266)
Net income	**$ 9,976**	$ 738
Earnings per share before goodwill amortization:		
Basic	**$ 0.33**	$ 0.06
Fully diluted	**$ 0.32**	$ 0.06
Earnings per share before discontinued operations	**$ 0.30**	$ 0.03
Earnings per share:		
Basic	**$ 0.30**	$ 0.02
Fully diluted	**$ 0.29**	$ 0.02

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (Deficit)

Years ended December 31	2000	1999
($ thousands, except per share amounts)		(Restated note 2)
Retained earnings (deficit), beginning of year as previously reported	**$ (5,512)**	$ 7,173
Change in method of accounting for income taxes (note 2)	**(2,185)**	(15,608)
Retained earnings (deficit) as restated	**(7,697)**	(8,435)
Net income	**9,976**	738
Retained earnings (deficit), end of period	**$ 2,279**	$ (7,697)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31	2000	1999
($ thousands)		
OPERATING ACTIVITIES:		
Income from continuing operations	$ 9,976	$ 1,004
Add (deduct) items not affecting cash:		
Depreciation and amortization	5,882	5,577
(Gain) Loss on sale of equipment	(56)	88
Gain on sale of other assets	(42)	–
Future income taxes	968	2,093
	16,728	8,762
Change in non-cash working capital balances:		
Accounts receivable	(4,067)	(4,383)
Prepaid expenses	44	(1,040)
Inventory	(1,281)	(12)
Accounts payable	1,049	187
Income tax payable	(201)	(3,044)
Cash flow from continuing operations	12,272	470
Cash used in discontinued operations	–	(86)
	12,272	384
INVESTING ACTIVITIES:		
Purchase of equipment	(11,340)	(11,757)
Proceeds on disposal of equipment	1,917	2,627
Proceeds on disposal of investment	1,452	(1,410)
Acquisitions	–	(115)
Acquisition of investment	(650)	–
	(8,621)	(10,655)
FINANCING ACTIVITIES:		
Increase in long-term debt	6,500	26,500
Repayment of long-term debt	(10,968)	(15,292)
Increase in bank operating line	3,642	1,160
Issue of share capital	196	20
Repurchase of share capital	(2,444)	(1,706)
Share issue and repurchase costs	(38)	(30)
	(3,112)	10,652
Increase in cash position	539	381
Cash position, beginning of year	(539)	(920)
Cash position, end of year	$ –	$ (539)

Cash position is defined as cash less cheques issued in excess of funds in bank.
See accompanying notes to consolidated financial statements.

General

Peak Energy Services Ltd. (the "Company") is a diversified Canadian energy services company operating in western Canada. Through its various operating segments, the Company provides well-site accommodations, solids control, drilling instrumentation and production services to drilling contractors and producers in the oil and gas industry.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned.

(b) Inventory

Inventory of raw materials, replacement parts and other supplies are stated at the lower of cost determined on a specific or average cost basis, and replacement value.

(c) Capital assets

Capital assets are stated at cost. Depreciation is provided over the useful lives of the assets using the following methods and rates:

Asset	Method	Rate
Vehicles and equipment	Declining balance	20%
Machinery and equipment	Declining balance	10 to 20%
Buildings	Straight-line	5 to 25 years
Office and computer equipment	Declining balance	10 to 30%

Depreciation on certain rental assets is provided on a utilization basis based upon estimated useful lives of up to 5,475 rental days.

(d) Long-term investments

Investments in associated companies are accounted for using the equity method. Under the equity method, the original cost of the shares is adjusted for the Company's share of post-acquisition earnings or losses less dividends. The current investment is carried at cost given that the Company is in the start up phase.

(e) Goodwill

Goodwill, which represents the excess of the costs of acquisition over the attributed fair value of assets and liabilities acquired, is amortized on a straight-line basis over 20 years. Management reviews the valuation and amortization of goodwill, taking into consideration the nature of the industry and the circumstances which might impair the value. The amount of impairment, if any, is determined based on estimated future undiscounted cash flows. Any permanent impairment in the value of goodwill is written off against earnings.

(f) Earnings per share

Earnings per share is calculated using the imputed earnings approach. Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Fully diluted earnings per share gives effect to stock options as if they had been outstanding from the beginning of the period or their issue date.

(g) Stock-based compensation plans

The Company has a stock-based compensation plan which is described in detail in Note 6(d). No compensation expense is recognized for these plans when stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option canceled is charged to retained earnings.

(h) Revenue recognition

The Company recognizes revenue for services and products at the time they are provided.

(Tabular amounts in $ thousands)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Income taxes

The Company has adopted the liability method of accounting for income taxes (Note 2). Under this method, future income tax liabilities and future income tax assets are recorded based on temporary differences – the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis.

(j) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions based on information available as of the date of the consolidated financial statements. Actual results could differ from those estimates.

(k) Comparative figures

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

2. CHANGE IN METHOD OF ACCOUNTING FOR INCOME TAXES AND PRIOR PERIOD ADJUSTMENT

During 1999, the Company adopted the liability method relating to accounting for income taxes. Previously the Company followed the deferral method.

The new policy was applied retroactively and opening retained earnings in 1999 was reduced by $15,608,000 representing the cumulative effect of the change on prior periods of which $13,423,000 was reflected in 1999, adjusted by $2,185,000 in 2000 upon correction of the initial calculation.

3. CAPITAL ASSETS

2000	Cost	Accumulated depreciation	Net book value
Rental assets	$ 100,944	$ 10,259	$ 90,685
Vehicles and equipment	19,303	4,770	14,533
Machinery and equipment	1,453	295	1,158
Land and buildings	2,658	234	2,424
Office and computer equipment	6,607	674	5,933
	$ 130,965	$ 16,232	$ 114,733

1999	Cost	Accumulated depreciation	Net book value
Rental assets	$ 92,912	$ 6,938	$ 85,974
Vehicles and equipment	18,554	3,593	14,961
Machinery and equipment	1,814	291	1,523
Land and buildings	2,222	173	2,049
Office and computer equipment	5,950	506	5,444
	$ 121,452	$ 11,501	$ 109,951

(Tabular amounts in $ thousands)

4. BANK INDEBTEDNESS

	2000	1999
Cheques issued in excess of funds in bank	$ –	$ 539
Bank operating line	4,802	1,160
	$ 4,802	$ 1,699

At December 31, 2000, the Company has a revolving demand loan of $5 million with a Canadian bank to finance operations, of which $4,802,145 was utilized at December 31, 2000. The facility was established on October 18, 1999, and expires May 2002. Interest is at bank prime rate or at Bankers Acceptance rates plus a stamping fee of 1.0%.

This facility is secured by a general assignment of book debts and a general security agreement.

5. LONG-TERM DEBT

	2000	1999
Revolving demand loan facility of $25,000,000 expires May 31, 2002. Monthly payments commence on maturity of approximately $374,000 including interest over a five-year period. Interest at bank prime rate plus 0.75% or at Bankers Acceptance rates plus a stamping fee of 1.75% secured by accounts receivable and certain equipment.	$ 18,500	$ 26,500
Loan payable requiring quarterly principal payments of $250,000 plus interest at 8.03%. Loan matures May 2004 and is secured by certain equipment.	9,750	10,000
Loan payable requiring monthly payments of $147,031 including interest at bank prime rate plus 1.5%. Loan matures July 2004 and is secured by certain equipment.	8,613	9,585
Loan payable requiring monthly interest payments and quarterly principal payments of $125,000. Interest at Bankers Acceptance rates plus 1.65%. Loan matures May 2004 and is secured by certain equipment.	4,875	–
Loans payable requiring monthly principal payments of $13,000 including interest at bank prime rate plus 1.5%. Loans mature from July 2001 to March 2002 and are secured by certain equipment.	79	200
	41,817	46,285
Less current portion	2,772	1,419
	$ 39,045	$ 44,866

Principal payments due in the next five years are as follows:

2001	2,722
2002	4,862
2003	6,192
2004	6,778
2005	7,088

6. SHARE CAPITAL

(a) The authorized share capital of the Company consists of an unlimited number of common shares.

(b) Issued:

	Number of common shares	Amount
Balance, December 31, 1998	35,018	$ 85,117
Exercise of share options	55	21
Repurchased and canceled	(862)	(2,077)
Less share issue costs (net of future income taxes of $13,000)	–	(17)
Balance, December 31, 1999	34,211	83,044
Exercise of share options	268	196
Repurchased and canceled	(1,270)	(3,085)
Less share issue costs (net of future income taxes of $17,000)	–	(21)
Balance, December 31, 2000	**33,209**	**$ 80,134**

(c) Contributed surplus

Contributed surplus arises upon the repurchase and cancellation of common shares at a price below the stated capital per share price.

(d) Share options

The Company has reserved 3,035,534 common shares pursuant to a Stock Option Plan ("the Plan"). Options to purchase common shares of the Company under the Plan may be granted by the Board of Directors to certain full-time employees and officers of the Company. As at December 31, 2000, there were employee stock options outstanding to purchase 2,845,883 (1999 – 3,012,550) common shares at prices ranging from $0.30 to $5.40 per share, with expiry dates ranging from June 2001 to October 2005.

A summary of the status of the Company's stock option plan as of December 31, 2000 and 1999, and changes during the years ending on those dates is presented below:

	2000		1999	
	Shares (000s)	Weighted-average exercise price	Shares (000s)	Weighted-average exercise price
Balance, beginning of year	**3,038**	**$ 2.64**	2,159	$ 3.28
Granted	**650**	**2.46**	1,093	1.76
Exercised	**(269)**	**0.78**	(55)	0.38
Cancelled	**(573)**	**5.42**	(74)	3.55
Other	–	–	(85)	4.75
Balance, end of year	**2,846**	**$ 2.23**	3,038	$ 2.64
Exercisable at year-end	**1,378**		1,380	

(Tabular amounts in $ thousands)

6. SHARE CAPITAL (CONTINUED)

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of exercise prices	Number outstanding at December 31, 2000	Weighted-average remaining contractual life	Weighted-average exercise price	Number exercisable at December 31, 2000	Weighted-average exercise price
$ 0.30 to 1.20	830,600	2.4	$ 1.07	460,600	$ 0.97
$ 1.30 to 2.05	240,000	3.4	1.65	80,000	1.64
$ 2.10 to 2.75	1,398,116	3.0	2.57	611,450	2.63
$ 2.80 to 2.85	227,167	3.7	2.83	75,722	2.83
$ 5.15 to 5.40	150,000	1.5	5.28	150,000	5.28
$ 0.30 to 5.40	2,845,883	2.9	$ 2.23	1,377,772	$ 2.32

7. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates of 44.6% to income before income taxes. The reasons for the differences are as follows:

	2000	1999
Income tax rate	44.6%	44.6%
Computed tax expense	$ 5,542	$ 1,316
Change resulting from:		
Future enacted tax rates	(4,239)	–
Other	(38)	(545)
	$ 1,265	$ 771

The components of the net future income tax liability at December 31, 2000, is as follows:

Future income tax assets:	
Non-capital losses	$ 2,017
Future income tax liabilities:	
Property, plant and equipment	(24,729)
Other	(70)
	(24,799)
Net future income tax liability	$ (22,782)

The Company has net capital losses available of approximately $6.7 million for income tax purposes which may be carried forward indefinitely to reduce future taxable capital gains. The potential tax benefits of these losses have not been recognized in these financial statements.

8. FINANCIAL INSTRUMENTS

(a) Risk management activities:

The Company does not have a significant exposure to any individual customer or other parties. Concentration of credit risk on the Company trade accounts receivable exists in the oil and gas industry.

(b) Fair values:

The carrying values of cheques issued in excess of funds in bank, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. The fair value of long-term debt approximates the carrying amount because it is at floating interest rates.

(Tabular amounts in $ thousands)

9. COMMITMENTS

The Company is committed to payments under operating leases for equipment and buildings approximately as follows:

2001	$ 2,677
2002	1,871
2003	1,197
2004	794
2005	364

10. DISCONTINUED OPERATIONS

In April 1999, the Company sold the assets of Chimo Polyurethanes Ltd. The net gain on the sale of discontinued operations amounted to $28,000 after income taxes of $26,000. Operating losses for the year amounted to $56,000 after income tax recoveries of $44,000. Discontinued operations generated revenues of $359,000 to the date of disposal, which have been excluded from consolidated revenues.

In March 1999, the Company wound down the operations of Freedom Oilfield Hauling (1996) Ltd. with the intention of selling the assets. The net loss on the sale of discontinued operations amounted to $44,000 net of income tax recoveries of $35,000. Operating losses for the year amounted to $194,000 net of income tax recoveries of $157,000. Discontinued operations generated revenues of $391,000 which have been excluded from consolidated revenues. Assets with a net book value of $60,000 remain to be sold.

11. SEGMENTED INFORMATION

The Company operates in four industry segments which are substantially in one geographic segment. The Drilling Services division includes well-site accommodations, which is engaged in the manufacturing and rental of high-quality well-site accommodation units used as living quarters for staff on remote locations in the oil and gas industry; solids control, which is engaged in the rental of sumpless drilling systems comprised of a series of tanks and centrifuges; and drilling instrumentation, which is engaged in the manufacturing and rental of electronic instrumentation equipment used to monitor data on the drill site. The Production Services division is engaged in providing tension anchor services for well servicing, the rental of frac/production tanks, pressure vessels, tubulars, pumps and tank truck services for completion fluids.

2000	**Well-site accommodations**	**Solids control**	**Drilling instrumentation**	**Drilling services**	**Production services**	**Corporate**	**Total**
Revenue	**$14,420**	**$16,271**	**$ 8,877**	**$ 39,568**	**$18,100**	**$ –**	**$ 57,668**
Interest on long-term debt	**6**	**6**	**–**	**12**	**–**	**3,440**	**3,452**
Depreciation and amortization	**931**	**2,219**	**607**	**3,757**	**2,116**	**9**	**5,882**
Net earnings	**6,405**	**5,508**	**1,803**	**13,716**	**3,605**	**(7,345)**	**9,976**
Total assets	**40,928**	**58,948**	**18,901**	**118,777**	**37,396**	**1,749**	**157,922**
Capital expenditures	**1,718**	**2,048**	**3,673**	**7,439**	**3,835**	**66**	**11,340**
1999							
Revenue	$ 8,494	$ 10,608	$ 5,801	$ 24,903	$ 15,670	$ –	$ 40,573
Interest on long-term debt	20	20	–	40	24	2,699	2,763
Depreciation and amortization	1,071	1,810	494	3,375	2,193	9	5,577
Net earnings	2,134	1,900	675	4,709	1,612	(5,583)	738
Total assets	33,744	53,531	14,989	102,264	44,817	2,700	149,781
Capital expenditures	1,495	6,893	1,449	9,837	1,920	–	11,757

CORPORATE INFORMATION

BOARD OF DIRECTORS

William M. Gallacher
Managing Director
and Chief Operating Officer
Avenir Capital Corporation
Director, Maxim Power Corporation
Director, Atlas Energy

Richard A. Grafton
President and Chief Executive Officer
Avenir Capital Corporation

Christopher E. Haslam
Chairman of the Board
President and Chief Executive Officer

Frederick A. Moore
President, Nusco Manufacturing
and Supply Ltd.

R. D. Barry Sullivan
Private Investor

Lloyd Swift
President, Square Butte Resources Inc.
Director, Morrison Facility Income Fund
Director, Rio Alto Exploration Ltd.

MANAGEMENT

Christopher E. Haslam
President and Chief Executive Officer

Matthew J. Huber
Vice President, Finance

Curt W. Whitteron
Vice President, Operations

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REGISTRAR AND TRANSFER AGENT

Computershare Investor Services
Calgary, Alberta

LEGAL COUNSEL

Burnet, Duckworth & Palmer, LLP
Law Firm

BANKER

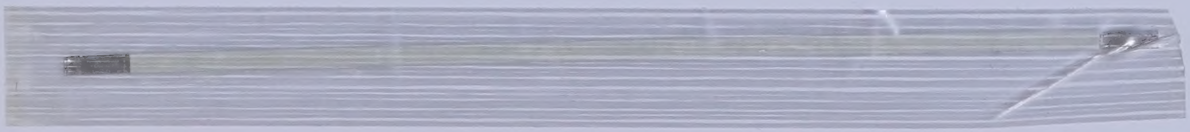
National Bank of Canada
Calgary, Alberta

STOCK EXCHANGE LISTING

Toronto Stock Exchange
Symbol: "PES"

ANNUAL MEETING

The Annual Meeting of the shareholders of Peak Energy Services Ltd. will be held on June 5, 2001, at 10 a.m. in the Cardium Room of the Calgary Petroleum Club, 319 – 5th Avenue SW, Calgary, Alberta. Shareholders are encouraged to attend. Those unable to do so should complete and forward the forms of proxy to Computershare Investor Services.



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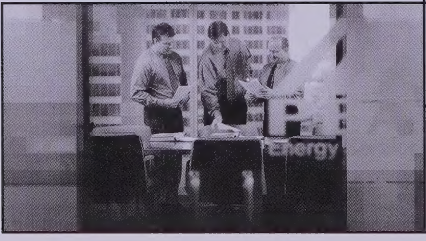

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